

BUDGETS

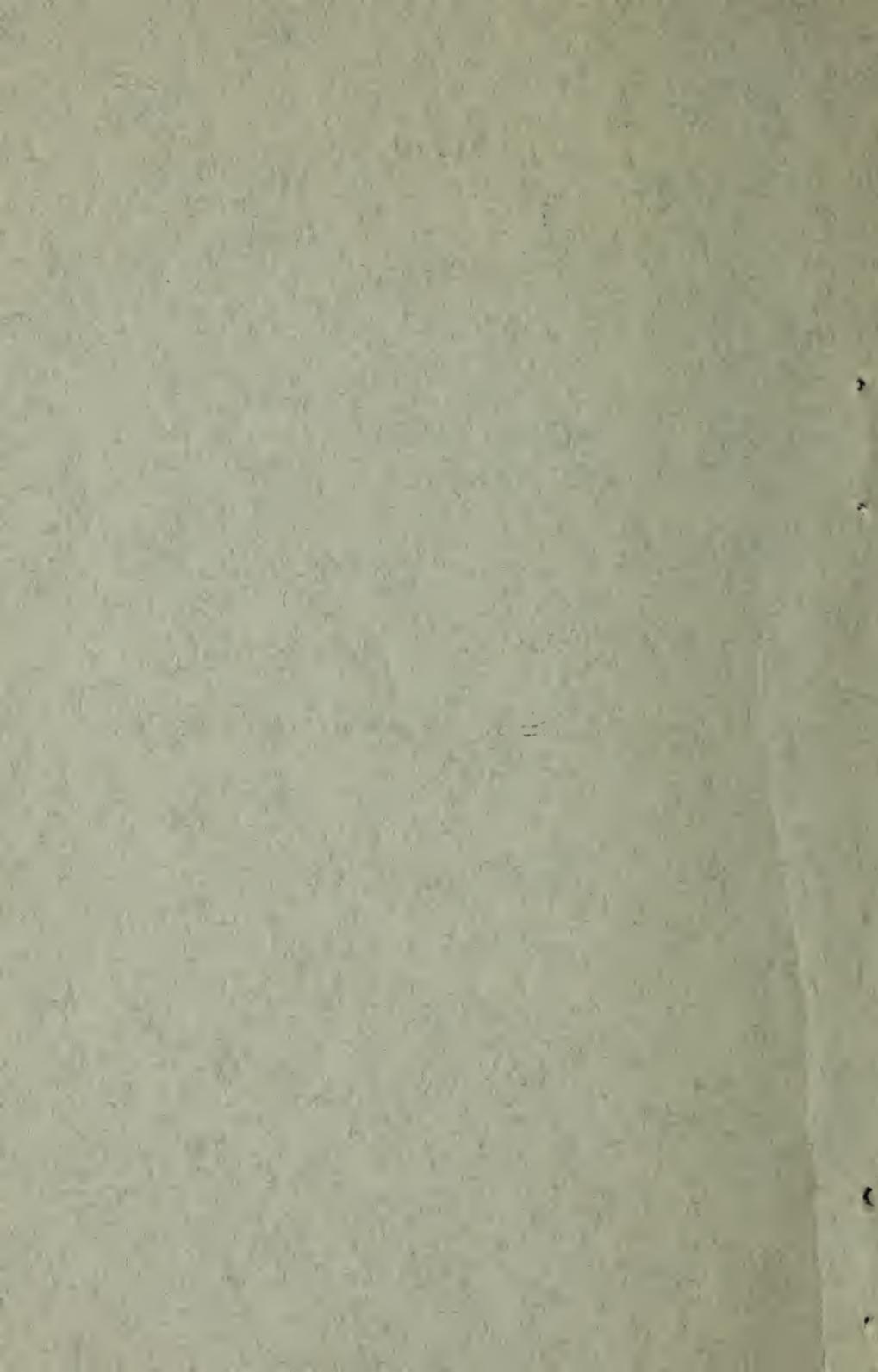
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# IRRIGATION BONDS

## Facts Regarding Their Issue and Their Security

By Frederick Lownhaupt





# IRRIGATION BONDS

FACTS REGARDING THEIR ISSUE AND  
THEIR SECURITY

BY

FREDERICK LOWNHAUPT  
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BOOKLET NO. 5 OF A SERIES ON BONDS  
See Page 2 for other titles

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A SERIES OF BOOKLETS  
Treating The Subject of Bonds  
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- Booklet No. 1-Railroad Bonds.  
Booklet No. 2-Public Utility Bonds.  
Booklet No. 3-Industrial Bonds.  
Booklet No. 4 Municipal Bonds.  
Booklet No. 5-Irrigation Bonds.  
Booklet No. 6-Timber Bonds.
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## IRRIGATION BONDS

IRRIGATION is nothing new. It is just now, however, attracting attention since it has grown to a national question. The matter of conservation of our natural resources has its complement in the question of opening of new sources of wealth. There can be no doubt that when reclamation of much of the available arid land in the West is accomplished vast wealth will have been added to the respective states in which the transformation has taken place.

### Governmental Work.

President Taft in a recent message was strong in urging on Congress provision for vast reclamation projects and suggested a large bond issue to provide the funds for prosecution of the work. The pressing congestion of population in the crowded centers is an argument advanced for stimulating the government to larger action in this matter. The

attractions offered to settlers by successfully irrigated land are by no means small.

Reclamation is of national interest, for the relations which it bears to the welfare of the country aside from purely commercial considerations. Looking forward a few years it is estimated that approximately 30,000,000 acres of land of varying fertility will be reclaimed in the West. On this land there will be millions of homes.

In this vast work the government will naturally be the leader. It has so far done a large proportion of the successful reclamation and will undertake large schemes of a similar nature in the future.

The burden of initiative must naturally rest on the government in this matter. It has the lands and the money and all facilities for developing the projects. But it should be kept in mind that the financing of these government reclamation projects is different from that of other projects inasmuch as no securities have been issued by the government to prosecute the work before now.

Through the United States Reclamation Bureau the work is done, the settlers to whom

the farms are sold repaying the money spent, in installments, and the amount being used again in further reclamation.

To be more precise, under the reclamation law of 1902, the government undertakes the reclamation of public lands, the money originally having come from the sale of such lands in a number of states. Under the "Homestead law" settlers may enter, paying annually to the Reclamation Fund part of the cost of construction of the works necessary to reclaim the land. The bill recently passed in Congress to authorize \$30,000,000 3 per cent. certificates for enlarged reclamation work, makes them, of course, as government bonds, to sell at a low rate of interest and not irrigation bonds in the usually accepted sense of that term. Their safety is in no wise dependent on the success of the project or projects carried on.

So then it will be seen that the irrigation or reclamation work conducted by the government is nothing other than a departmental activity of a special character, and is distinct from the private enterprises of a similar character. There are around thirty projects that have been undertaken by the Reclamation

Bureau, a number of which were opened in 1908.

### **Various Methods.**

Aside from the purely governmental activities in this direction, irrigation is being promoted by various methods. In numerous places where there is irrigable land, or land that gives promise of fertility under cultivation, means and capital are being sought to bring in the water and make the desert blossom and bear fruit.

A close analysis of the hundreds of details that cling about all the schemes for developing irrigation districts is impossible without making a long story. It is sufficient as a working basis to mention here the salient features of the different methods which are being presented for the consideration of investors. Each one has its own peculiar aspects, and each should be studied by an investor in much the same way as he would go into all the questions regarding railroad, public service or any other securities.

### **Municipal Districts.**

Prominent among the different kinds of irrigation securities are those put out by muni-

cipal irrigation districts.

In various states of the West legislation from time to time has put upon the statute books laws permitting the formation of so-called irrigation districts. In the states where these laws are now found, there are sections of country of great promise, when scientifically watered. In some of these sections there is more or less development of agriculture before any systematic attempt at irrigation is made, and there are permanent settlers in numbers varying with the attractiveness of the location.

### Irrigation Laws Developing.

Under the law these settlers, in a specified amount of territory, may constitute an irrigation district. The legal provisions for this kind of a quasi-municipality are not at all uniform throughout the different states. Although irrigation is not new to the West, it is only within recent years that its far-reaching economic importance has been fully appreciated. For this reason the statutory provisions governing the matter, like the laws affecting any movement not yet in its full development, are yet in the evolutionary process. The states are learning from each other rapidly just how to

frame laws suited to the exigencies arising, and to the greatest stability and development of the enterprise.

### **Formation of Irrigation Districts.**

These irrigation districts may embrace parts of several counties or they may be composed almost entirely of individual counties. This is, of course, a matter entirely dependent on physical conditions. In practically all cases the proposition to incur indebtedness for the promotion of irrigation for the district must be approved by a majority of the resident taxpayers; and, of course, the idea is to build and own completely the water system. The district is formed, its officers elected, the indebtedness voted. These proceedings are approved and affirmed by the principal district court within the irrigation district. Once the bonds are issued they become a first lien on the district. Payment of interest and principal is a matter of tax levy along with all other taxes, and in general practice is fixed by county commissioners and collected by the County Treasurer of the county in which the irrigation district office is located. The tax levy is usually in excess of actual requirements.

So much for the formation and general conduct of these municipal corporations. The process is comparatively simple.

#### **"Carey Act" Securities.**

The other well-known and widely advertised method of irrigating in the West and one which is producing large amounts of securities, which are now being presented to the investment market, is that carried on under the so-called "Carey Act." This Federal statute was originally passed in 1894, and has been modified from time to time to meet conditions.

Under its provisions there is set aside from out of the public desert lands a section deemed suitable for irrigation and development. The Secretary of the Interior, with the approval of the President, grants these lands, not to exceed 1,000,000 acres for each state. Before an application of a state is allowed it must file maps of the lands and show the plans for doing the work of contemplated irrigation with the Secretary of the Interior. Subject to the proper examination and such regulations as he may prescribe the land is allotted; and as fast as a state furnishes satisfactory proof that all requirements have been complied with the

government releases the land absolutely.

But the process works out in about this way: Private corporations apply for a certain amount of land and the adequate amount of water from some stream or streams, and after giving the preliminary engineering attention present their plans to a State Board of Land Commissioners, which, in turn, gives them engineering examination. If they be regarded feasible the State Board turns them over to the government for further examination. If satisfactory to it the state may go ahead and grant the request of the promoters.

The project is then developed under the supervision of the state's engineer, who is to see to it that the company which is under bond to do so fulfills its contract and carries out the plan as presented.

Until the government and state pass favorably on all matters there is, of course, no settlement of the land. But as soon as the tract is opened parcels of land up to 160 acres, which is the maximum permitted by law, may be applied for. In this way the settlement progresses until all the available acreage is taken up.

The corporation attends to the construction work and turns in the water. The land is sold to settlers at a certain price per acre as soon as the tract is opened and is generally paid for in instalments. A form of mortgage is given and against a number of these mortgages, which are deposited with a trustee in addition to a first lien against the construction works, the bonds are issued. This is always done in the best practice. He must establish his residence within six months after water is turned into his land by living upon it at least thirty days, after which he may take title until three years after entering. Naturally the price of land or water rights varies with conditions. In many cases it is around \$35 or \$40 per acre.

#### **Private Corporations.**

A fourth type of irrigation promotion is that purely and simply private. That is to say, a section of land is selected, a company formed, and any method they may choose to adopt used to raise money. They may build the irrigation works and then with a completed plant and water flowing go ahead and sell the land to reimburse themselves. Or they may issue securities to get the money to construct the

works and then depend on selling the land to pay off the securities. Under these latter circumstances, of course, the general investment market would be called upon.

### Investment Considerations.

Everybody interested in irrigation securities should keep in mind these four different methods which are being pursued in the enterprise.

From an investment point of view all of the three last mentioned ways through which capital may be embarked in the enterprise must have some general and specific consideration. Four things together make the irrigation project: the land, the water, the settler and the water works.

Out of all of these grow a lot of questions which must be satisfactorily answered before the irrigation project may be deemed the basis of a secure investment. They come under the heads of physical, legal, political and financial. To know the status of an irrigation project and the securities on it from these sides looks like a formidable task; and so it is for an investor, if left to his own resources. But there are some very reputable banking houses interested in this class of securities, whose financial

resources and facilities are sufficient to enable them to scrutinize and investigate all such projects and sort out the good from the bad. Their experience has shown them that all this care is necessary.

Now in considering the physical aspects of the question it will be recognized that the engineer plays an important part. So at the outset he must be thoroughly competent and trustworthy. There are some engineers whose standing and success in this work makes their examination a definite basis for conclusions, and they are sought by the high class investment dealers. The questions, therefore, who are the engineers? and what do they report? begins the inquiry.

What they must consider is the character of the soil, the climatic conditions existing, the water supply—its adequacy, its source, its flow, its continuance, etc. In connection with this matter of water supply some very important things have to be settled. One of the most fruitful sources of failure and trouble in the past has been the all important question of water rights. The right to take water and the quantity taken must be established beyond a

peradventure. Western states vary considerably in their laws affecting water rights. There must not be room for a doubt about this matter, for without the proper amount of water the whole scheme collapses. It is a complicated question every time, no matter what the form of project.

Not only in connection with water rights, but with other matters, especially in municipal irrigation districts, legal points must be settled. The same caution that asks the best legal opinion of the validity of straight municipal bonds should be exercised here.

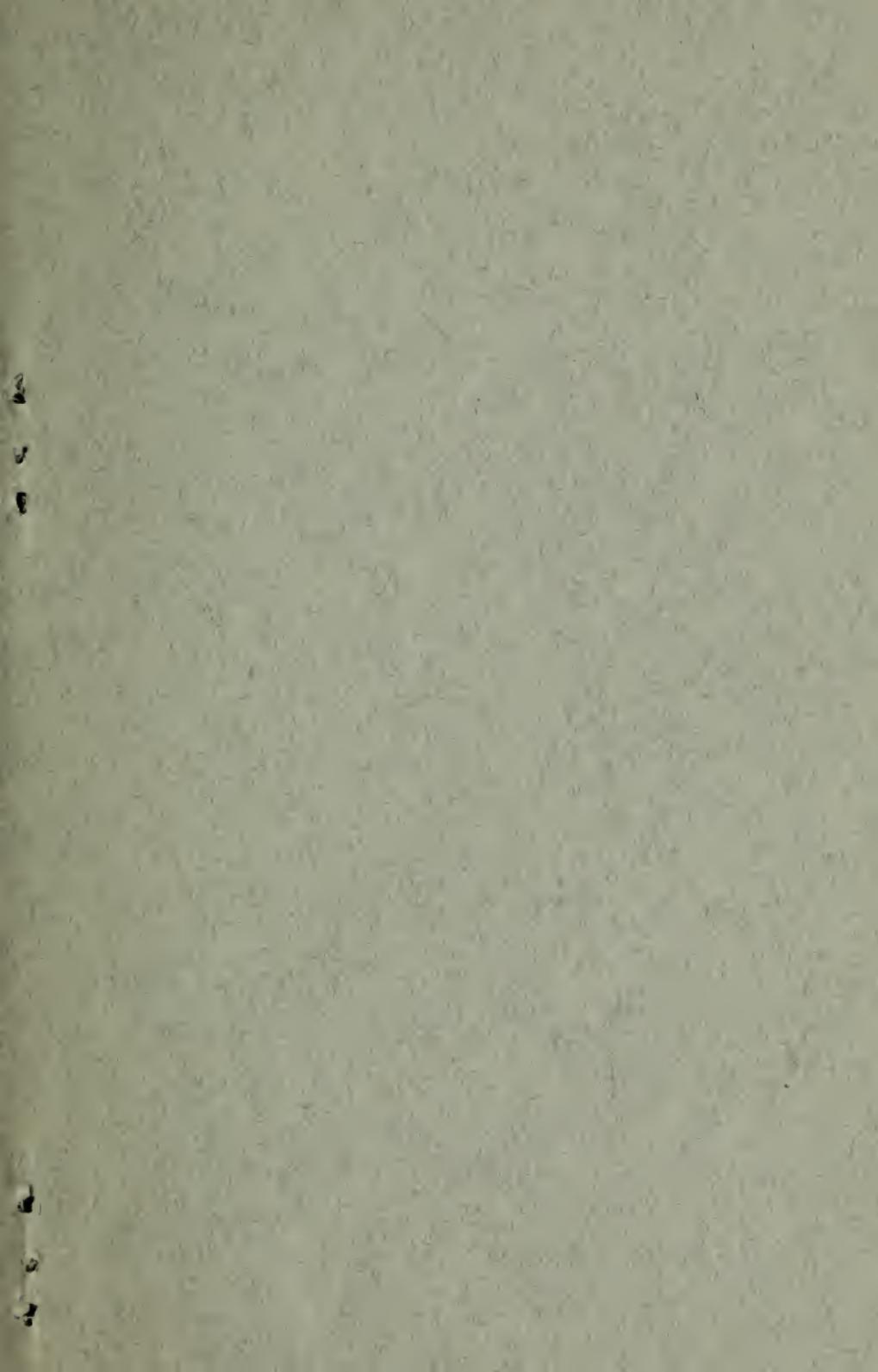
As to how political considerations may enter into the matter, it should be remembered that the statutes of the states differ and that whatever laws are framed should be with the best interests of the state in mind and without special reference to any particular locality or group of promoters. To get the best results, all appointments and examinations should be free from political influences. Where a banking house of standing goes over all proceedings and its attorneys pass on the project there is all likelihood that anything that looks like politics will be discovered.

When questions such as have been suggested are satisfactorily disposed of, the general success of the particular project must be regarded. As we have said, the settler must come into the land or be there in sufficient numbers to justify the undertaking and make its future assured. In the municipal district he is already there; in the government, Carey Act and purely private projects he must be drawn in. In the municipal district the coming of additional water must mean increased fertility, for the settler must meet additional taxes. The value of the land in its ability to produce must increase to make the bonds which are a mortgage on the land secure. Many of the questions about straight municipal bonds apply to these quasi-municipal irrigation bonds.

In the case of the Carey Act bonds it is well to know that settlement is made or progressing by those who will stay on their farms and not take land for mere speculation. It is well to know how many there are there and to what stage successful agriculture has progressed. It is, of course, understood that bonds are issued on the mortgages which the settlers give. There should not be too narrow a margin be-

tween the amount of these mortgages and the amount of the bonds issued against them. It is best that the mortgage on the construction works should be on a completed property. Another matter that is very vital to the success of an irrigation project is that of transportation. Be the enterprise ever so good, if there are not adequate railroad facilities its position is obvious.

All these things and others growing out of them go to make the safety or weakness of irrigation securities. Their security, in the final analysis, is dependent upon the outcome of the enterprise. Just as investors have come to that point where their confidence rests largely in their bankers in the selection of municipal, railroad, public service, industrial or other bonds, so they should look to them in this instance where they themselves have not the facilities or knowledge to enable them to discriminate. The banker valuing, of course, reputation and clientele, exercises the utmost care before he offers securities of this or any other kind to his customers.





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